



# OVERVIEW OF THE REPORT

This is the 2018 environmental, social and governance report published by Sun Art Retail Group, in which is disclosed all relevant information about the Group with respect to the environment, society and other aspects of corporate social responsibility.

The reporting period is from 1 January 2018 to 31 December 2018. Environmental data is taken from all stores under the Auchan and RT-Mart banners open for the full 12 months in the reporting period, which is a total of 460 stores. This is to ensure an accurate quantitative year-on-year comparison of data. The reporting boundary includes the RT-Mart and Auchan banners.

This report has been prepared by the Group in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited – “Environmental, Social and Governance Reporting Guide”.

Materiality of issues in this report were determined after consultation with a wide array of stakeholders in the Sun Art business ecosystem.

For more information about company performance and governance practices, please refer to the Group’s 2018 Annual Report.

## VOICE OF THE CEO



Dear Shareholders,

At Sun Art Retail Group we have been pursuing an important mission: to enable people to eat well and live better. This means ensuring we are providing quality products for our customers, promoting nutritious and local food choices, supporting suppliers who share our values, building trust through transparency, and engaging with our customers in a positive way, every day.

Our values of sharing, trusting and progress are sustainable and known to everyone in the company. To do our job, we give priority to listening, strength of the team, simplicity and performance. We act on these values with a great sense of responsibility.

As retail in China has continued to evolve and transform at a rapid pace, we have been cooperating with the Alibaba group on the execution of a strategy that merges the physical and digital marketplaces; a process that we refer to as Phygital Development. We recognize that customer expectations around transparency, quality, and safety are continuously rising, and our investments in innovation and technology are done to ensure we are providing customers with convenience and efficiency, offer seamless digital experiences, and offer high quality products that are inherently trustworthy.

Over the past year, the Group has embarked on a digital transformation and a comprehensive upgrade of its commercial infrastructure, resulting in a number of notable achievements. For example, we completed the digital transformation of all the Sun Art physical stores and connected them with Alibaba's Tao Xian Da business to launch online services. That enabled Sun Art to serve not only in-store customers, but all other customers within a three-kilometer radius as well. Additionally, we rolled out our Food Safety Centralization Platform, which allows end-to-end tracking and tracing of all products sold in our stores. This further enhances the quality we are able to guarantee to our customers and is the latest step we have taken to continue to ensure that our supply chain does not have a negative effect on the environment or society.



## VOICE OF THE CEO

We are committed to applying a precautionary approach to environmental challenges, by strongly supporting government rules, regulations and policies, to take initiatives to promote greater responsibility towards the environment, and to promote the development and dissemination of more environmentally friendly products and services. With all our stakeholders - customers, employees, suppliers, NGOs and civil society - we seek to co-build loyal relationships, while protecting global commons and reducing the environmental impact of our business.

In 2017, Auchan Retail signed an agreement with UNI Global Union, an international trade union federation representing 20 million service-sector workers in 150 countries through 900 member unions. The agreement applies to all 17 countries in which Auchan Retail is established and guarantees its best commercial, social and environmental practices. We are also committed to respecting the following international standards:

- Universal Declaration of Human Rights 1948
- The International Labor Organization's Declaration on Fundamental Principles and Rights at Work
- The OECD Guiding Principles
- The UN Global Compact

Looking ahead to 2019, Sun Art Retail will continue to explore opportunities in the New Retail sector and carry out market leading initiatives at the intersection of retail and sustainable development. For our customers, we will continue to refine our offering to give them the keys to a healthier lifestyle. For our employees, we continue to strive to set new standards in wellness at work. For society, we will continue to engage in patronage on a local scale. For the planet, we aim to become one of the top 3 most environmentally-friendly food retailers.

This document is not intended to replace each banner's regulations; it aspires to support and reinforce government laws, policies and regulations. It was designed to provide a framework for Sun Art Retail Group business entities' existing policies and enable everyone to better understand the logic and purpose behind our commitment to corporate social responsibility.

On behalf of my colleagues, I am pleased to share Sun Art's results, progress and goals regarding our environmental and social responsibilities.

### Mr. Huang Ming-Tuan

*Chief Executive Officer*

SunArt Retail Group

May 26, 2019



# BUSINESS HIGHLIGHTS

FOR FY 2018

484

OUTLETS IN CHINA

9

HE XIAO MA STORES

13.0 M

GFA (SQM)

233

CITIES



# SUN ART BUSINESS INTRODUCTION

## Leading retailer with hypermarket and fast-growing E-commerce business in China

Sun Art Retail is a leading retailer with hypermarket and fast-growing E-commerce business in China. As of 31 December 2018, we have a total of 484 outlets in China covering 233 cities across 29 provinces, autonomous regions and municipalities. We have a further 55 sites secured to open hypermarket complexes, of which 37 are under construction. Sun Art Retail is operating its hypermarket and shopping malls businesses under two recognized banners – “Auchan” and “RT- Mart”.

## Digital Transformation

At Sun Art Retail Group, we are in the midst of a digital transformation, including the digitalization of physical stores through the implementation of our new Tao Xian Da B2C delivery and membership system, the development of multi-formats and omni-channels, and the convergence between our two banners under Sun Art.

## Tao Xian Da program

Our Tao Xian Da program was initiated in March 2018, and completed its rollout to all stores by the end of the year. We are offering around 13,000 SKUs to our customers on this platform, and by integrating our membership system, payment processes, logistics and supply chain, as well as marketing into a single platform, we have been able to enhance the efficiency of our physical stores while bringing more personalized services and value to our customers.

DELIVERING A **SEAMLESS & MORE CONVENIENT** SHOPPING **EXPERIENCE** FOR CUSTOMERS



## New Retail Experience

Our multi-format and omni-channel initiatives include two joint projects with Alibaba: He Xiao Ma, a new supermarket and fresh food delivery concept focusing on 3rd and 4th tier cities, and Frehippo (formally known as He Ma), combining RT-Mart’s expertise in logistics and supply chain with Alibaba’s technology and traffic in order to continue to push forward the new retail experience for our customers. By the end of 2018, we had opened 9 He Xiao Ma stores, and our first Frehippo store.

## Joint-operations headquarters

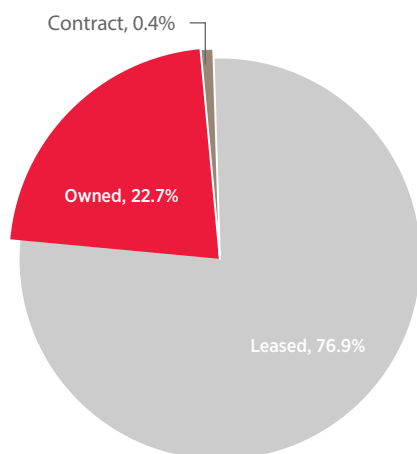
Finally, in December 2018, we combined the back offices of RT-Mart and Auchan in a joint-operations headquarters. We are continuing to upgrade our IT systems and integrate processes between the two banners.

REGION	NO. OF STORES (AS OF 31 DEC 2018)			GFA-SQM (AS OF 31 DEC 2018)		
	Auchan	RT-Mart	Total	Auchan	RT-Mart	Total
Eastern China	51	139	190	2,067,785	3,357,185	5,424,970
Northern China	5	46	51	151,064	1,137,050	1,288,114
N-Eastern China	1	51	52	32,033	1,413,972	1,446,005
Southern China	5	84	89	124,523	2,047,350	2,171,873
Central China	10	66	76	293,766	1,642,455	1,936,221
Western China	5	21	26	223,839	495,920	719,759
<b>Total</b>	<b>77</b>	<b>407</b>	<b>484</b>	<b>2,893,010</b>	<b>10,093,932</b>	<b>12,986,942</b>

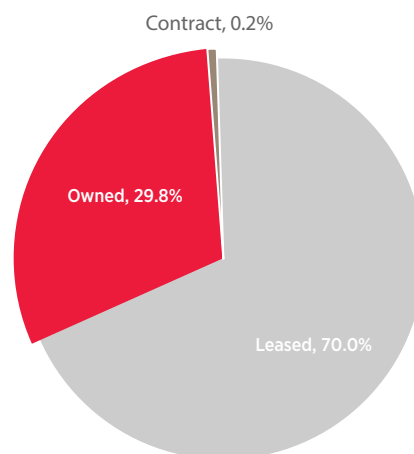
# SUN ART BUSINESS MARKET SHARE

## DISTRIBUTION OF OWNED STORES AND LEASED STORES 2018

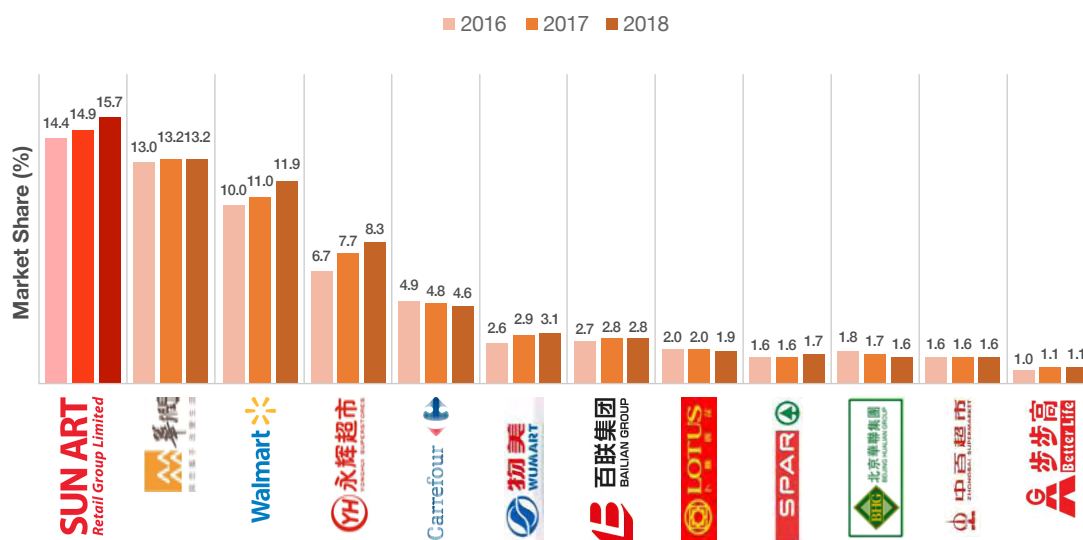
Store no. Breakdown



GFA Breakdown



## MARKET SHARE % IN THE HYPERMARKETS INDUSTRY 2016-2018



Source: Euromonitor

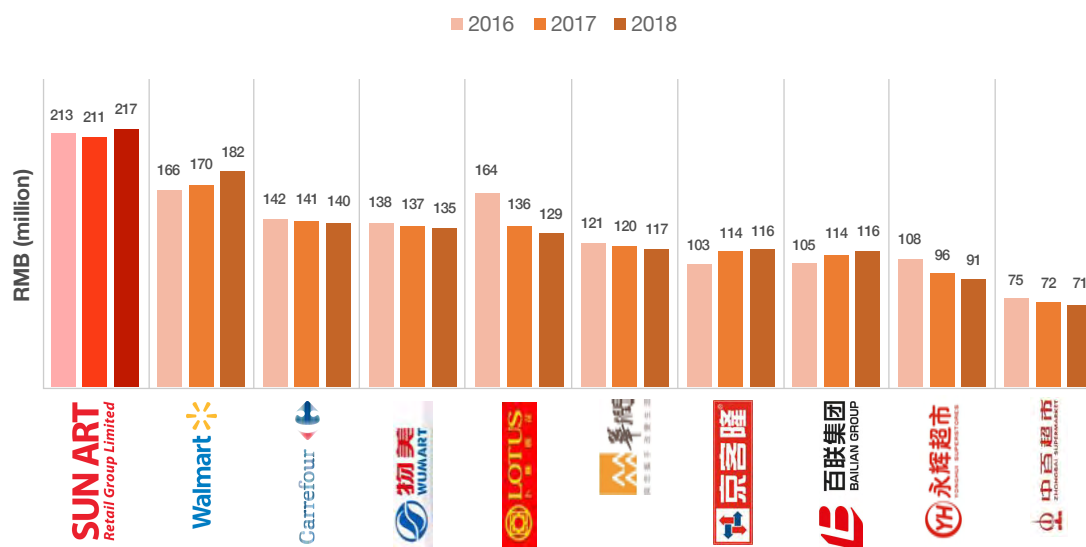
(1) All 2016-2017 numbers are the historical actual performance data and 2018 numbers are estimated based on the first half year actual performance of 2018.

(2) The definition of Hypermarkets from Euromonitor is chained or independent retail outlets with a selling space of over 2,500 square metres and with a focus on selling both grocery and non-grocery merchandise.

(3) In the hypermarkets of Euromonitor data, Walmart including "Wal-Mart (China) Investment Co Ltd" and "Trust-Mart Co Ltd". Bailian Group including "Lianhua Supermarket Holdings Co Ltd" and "Hualian GMS Shopping Center Co Ltd".

# SUN ART BUSINESS PRODUCTIVITY

## AVERAGE SALES (EXCLUDING SALES TAX) PER STORE IN 2016-2018 IN THE HYPERMARKETS INDUSTRY



Source: Euromonitor

(1) All 2016-2017 numbers are the historical actual performance data and 2018 numbers are estimated based on the first half year actual performance of 2018.

(2) The definition of Hypermarkets from Euromonitor is chained or independent retail outlets with a selling space of over 2,500 square metres and with a focus on selling both grocery and non-grocery merchandise.

(3) In the hypermarkets of Euromonitor data. Walmart including "Wal-Mart (China) Investment Co Ltd" and "Trust-Mart Co Ltd". Bailian Group including "Lianhua Supermarket Holdings Co Ltd" and "Hualian GMS Shopping Center Co Ltd".

(4) Notes: This chart only counts top 13 players in hypermarkets by retail Value.



# ENVIRONMENTAL & SOCIAL COMMITMENTS



**Waste sorting & recycling**



**Biodegradable cashier bags**



**Sale of bulk food**

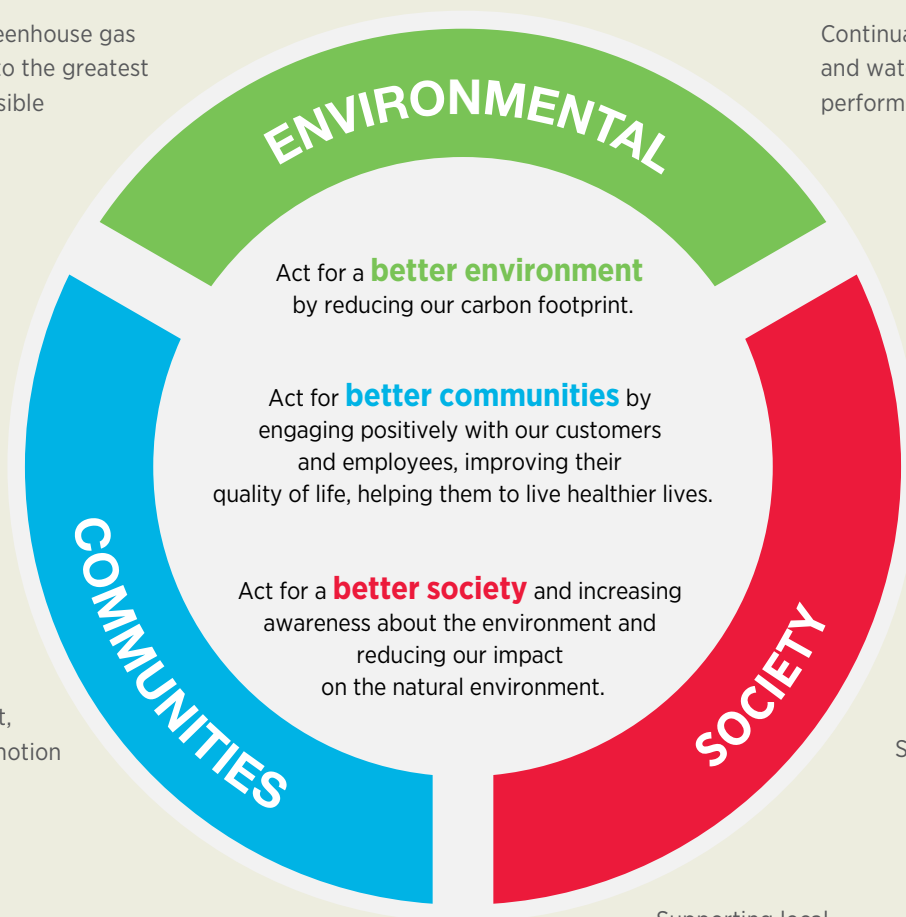


**No wood products from primary forests**

Reduce usage of paper and plastic

Reduce greenhouse gas emissions to the greatest extent possible

Continually improve energy and water consumption performance



**Schedule**

Employee development, training & internal promotion



**Donations**

Supporting consumer privacy



**Diversity**

Healthy Life Healthy Food (product responsibility and range)

Direct sourcing, supporting local business, supply chain optimization

Supporting local environments and integration with communities

Providing a safe, diverse and healthy working environment



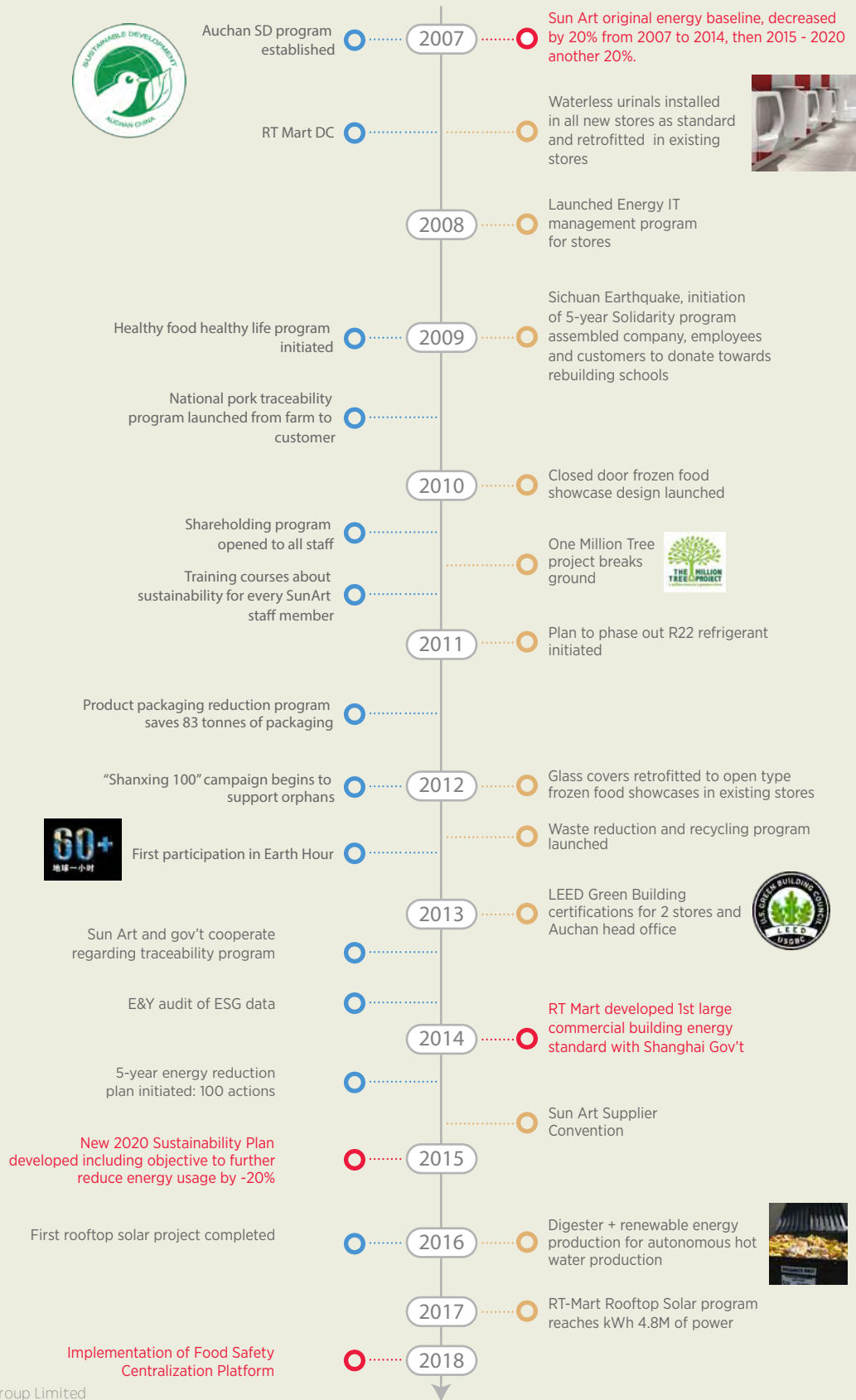
**Employee benefits activities**

Supporting national environmental campaigns



**Alternative transport**

# SUN ART ESG DEVELOPMENT TIME LINE





# EAT WELL

## Quality Assurance

Food quality, service quality and the safety of our consumers are long-term priorities for the Sun Art Retail Group, and an indispensable component of our policies. The company and employees strictly comply with all relevant laws and regulations concerned with quality and safety, as well as the company's quality management policies and operational specifications.

These commitments are represented by our integrated quality strategy, "The people's first necessity is food, food safety is paramount (民以食为天, 食以安为先)". This strategy strictly adheres to China's food safety laws, including the national "Product Quality Law 《产品质量法》", "Food Safety Law 《食品安全法》", and "Consumer Rights Protection Law 《消费者权益保护法》" to become one of the top 3 most environmentally-friendly food retailers.

We work to strengthen preventive controls, implement proactive controls, integrate follow-ups and careful tracking of quality issues into our daily work, and continually improve the level of safety and quality we provide for our customers. Our quality assurance strategy encompasses the two categories of products we provide: products sourced from our suppliers, and fresh products that are cooked and prepared in our stores.

THE PEOPLE'S FIRST NECESSITY IS FOOD,  
民以食为天, 食以安为先  
FOOD SAFETY IS PARAMOUNT



# QUALITY ASSURANCE OF SOURCED PRODUCTS

## Quality Control Process

For all products sold on our shelves, the quality control process begins when we choose which partners to work with. We place priority on choosing well-known businesses, both domestically and internationally, and for food suppliers, we ensure that their factories have either ISO 22000, HACPP or equivalent certifications.

## Site Vists

In order to maintain product quality, our quality engineers make both announced and unannounced site visits to our partners' factories. These visits help us to confirm that the manufacturing and quality control processes in use are meeting our requirements, which are in turn informed by the national "Work Safety Law" 《中华人民共和国安全生产法》. These visits are also used to follow up and track to the source any complaints we receive from our customers related to products supplied by a partner.

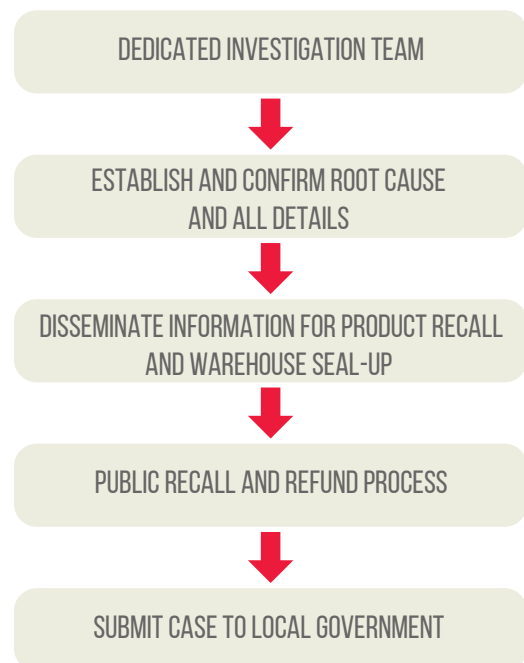


## Continuous Quality Improvement

We also work to encourage the continuous quality improvement of our partners by providing trainings and seminars with factory employees, managers and safety workers. At these trainings, we communicate and ensure understanding of all changes in national or industry standards and best practices and help them to implement socially responsible policies and procedures. These include but are not limited to focusing on the elimination of waste boilers, promoting recycling of non-process water, using the latest energy saving and carbon reducing equipment, and the use of advanced automated environmental protection equipment.

## Food Recall Management Measures

In the event that we identify and/or receive dangerous or non-compliant products that require a proactive recall process within our supply chain, we immediately create a dedicated team to uncover all relevant details of the situation, including establishing when the product was created, where it has been distributed, and the root cause of the issue. This information will be confirmed within time to distribute information about the dangerous product to all relevant stakeholders so that it can be removed from shelves and sealed up in warehouses if necessary. We then implement a public recall and refund process, submit the case to local supervisory authorities, and work under the guidance of local government organizations to ensure everything is carried out according to the relevant "Food Recall Management Measures 《食品召回管理办法》".





# PROMOTING HEALTHY LOCAL FOOD

## Food Cooked and Sold On-Site

We have three main categories of food cooked and sold fresh in our stores, “Fast Food”, “Soy-Based Products”, and “Baked Goods”; we maintain the utmost levels of quality assurance in their preparation. Each category has its own standard cookbook and operation process guidelines developed by a team of chefs who specialize in preparing these types of food, and which are strictly defined according to food science principles

All on-site production is carried out in specific food operation rooms and monitored by closed-circuit television systems. Our sanitization requirements have been designed according to guidelines provided by SGS and are executed by our sanitization management and control system. Our sanitization processes are explained in greater detail below.

Raw materials used in the production and cooking of food are either sourced from within the store, or in the case of bread baking and soy-based products, sourced from designated raw material suppliers that have gone through our supplier selection process. We track the production date, shelf life, quality assurances and certifications of all raw materials used in production.



## Food Safety Organization

We promote the concept and safety control system of “Food Safety is No Small Matter (食品安全无小事)” throughout our organization.

We have a dedicated food safety team in our head office, consisting of 24 people representing all relevant departments of the organization. They ensure that we are strictly adhering to all laws and regulations promulgated by the national Food and Drug Administration (“FDAs”), including “Product Quality Law”, “Food Safety Law 《食品安全法》”, “Consumer Rights Protection Act 《消费者权益保护法》”, and “Food Recall Management Measures 《食品召回管理办法》”. They are also responsible for communicating the importance of satisfying customer, national and local food safety requirements and implementing all food safety policies and goals created by the company.

Implementation and operation of food safety policies on the ground are carried out by teams of at least seven people in each store. They are responsible for executing the policies developed in the head office in accordance with the company’s relevant food safety regulations, as well as leading food safety training for store workers. They are also the point of contact for local Food and Drug inspections, and responsible for resolving and eliminating any safety hazards in a timely manner.

Our operations and control organization works closely with SGS on implementation and internal auditing of our food safety control system. SGS provides a dedicated commissioner and associated team that helps us refine our policies on an annual basis in order to adjust to any new laws or regulations released by national or local Food and Drug Administrations (“FDAs”). They also make unannounced visits and carry out audits to each of our stores in order to do walk-throughs and to take product samples for same-day microbial, pathogen and water quality analysis.

The targets of these audits include:

- Presence of expired raw materials
- Contamination of raw materials
- Adherence to shelf-life limits
- Presence of product-life and production date on products
- Adherence to food preparation guidelines and correct use of food ingredients
- Presence of inspection certifications for meat products, and that the number of certificates match the number of received products
- Ensuring all refrigerated and frozen equipment temperature is in line with requirements



# PROMOTING HEALTHY LOCAL FOOD

## Food Safety Training

We work with SGS to develop an annual food training curriculum that is distributed to all our HR training centers across the country. This curriculum is first taught to all fresh food managers, who attend the course in a specialized pilot store, and these managers are then responsible for working with local SGS project managers to carry out the training in their respective stores.

These curriculums include a range of food safety and leadership topics, an analytical review of the previous year's performance, and emphasize both existing policies and any changes to laws and regulations.

In addition, we hold quarterly training sessions at each store to enhance employees' understanding of food safety and our "Food Safety is No Small Matter" concept.



## Store Sanitization

We constantly monitor our stores' hygiene to ensure we are providing a clean environment for our customers to shop, our products are stored according to requirements, and our food is prepared in the cleanest environment possible.

Store department managers carry out self-checks of their respective areas on a daily schedule, and quickly rectify any issues that are identified.

FOOD SAFETY 食品安全  
无小事 IS NO SMALL MATTER



On a monthly basis, a representative from the head office will visit each store in order to carry out a sanitization and food safety inspection that lasts a minimum of two days

SGS carries out a third-party inspection of each store every two months, focusing on personal cleanliness and disinfection practices, working methods, refrigerated temperature controls, and warehouse inspection. Any issues are relayed back to the store and head office, and measures are taken to ensure they are rectified in a timely manner.

## After Sales Service

In order to carry out after-sales service respond to product complaints, we have developed an integrated After Sales Return System and Customer Suggestion and Consulting System, which includes multiple channels through which our customers can contact us with suggestions or requests for after-sales services. These include an after-sales service center in each store, a public customer suggestion box in each store, a public after-sales service hotline, an official WeChat account, and scheduled community events.

In addition, we have localized Commercial District and Complaint Systems at each store. This system automatically directs complaints to the appropriate store and department, and is available through our public website, a hotline, and our official WeChat account.

# PROMOTING HEALTHY LOCAL FOOD

## Response to Complaints

In 2018, we received 896 complaints about food quality nation-wide, and resolved these complaints according to the relevant “Food Recall Management Measures 《食品召回管理办法》”, and with guidance from city supervisors so that non-compliant products are not sold again and are recalled appropriately.

Additionally, we saw only one instance of a required product recall in 2018 due to detection of a pathogen in a product sold in Jinjiang city. This recall consisted of 311 pieces and was carried out under supervision of the local city food safety officials in accordance with “Food Recall Management Measures 《食品召回管理办法》”.



## Intellectual Property (“IP”) Protection

We take IP protection extremely seriously and are constantly on the lookout for infringing products in our stores. This monitoring begins with our relationship with our suppliers. According to the national “Copyright Law 《著作权法》”, “Trademark Law 《商标法》”, and “Patent Law 《专利法》”, we inspect all our manufacturers’ qualifications and certifications relating to intellectual property protection. Before we receive a product, we carry out an additional internal check to ensure it does not infringe on any existing IP or trademarks. Only after this check is completed will this product be placed on our shelves.

In addition, we carry out regular in-store checks, and check online with the National Intelligence Department for issuances about product violations and risk warnings. If any infringing products are identified in our stores, we immediately remove them from our shelves, and ensure our manufacturers confiscate and destroy the offending goods.

At the beginning of our new product development process for our own brand products, we consult with our legal department and check for any trademarks that we could potentially be infringing upon before finalizing the design and rectify all issues as necessary.

# TRACEABILITY IN THE SUPPLY CHAIN

## Traceability Initiative in Cooperation with the Ali Group

Sun Art Retail Group's alliance with Alibaba made 2018 a transformational year for our supply chain traceability initiative. We are excited to announce that, working together with the Ali Group, we were able to successfully implement our Food Safety Centralization Platform. This platform allows the tracking and tracing of all products sold in our stores, from production to sales. By implementing this system, we are now able to more effectively and quickly resolve product quality or safety issues and communicate directly with affected customers in the event they have purchased products subject to a recall. It also provides our customers with transparency into where their products are coming from, as they are able to see product information by scanning the product's barcode.



For example, in 2018, the system identified that one of the products on our shelves was suspected of including pork sold by a farm that was affected by African Swine Fever. We were able to detect this situation right away, and immediately took the products off the shelf while investigating the circumstances. We then directed the manufacturer to take rectification actions under local government supervision, while at the same time notifying customers who had already purchased this product and educating them about the true effect of this disease, eliminating rumors and helping to reduce panic.

## Supplier Auditing and Control

As of December 31, 2018, we were engaged with the following numbers of suppliers:

REGION	NO. OF SUPPLIERS (AS OF 31 DEC 2018)
North-Eastern China	3,461
Eastern China	6,656
Central China	2,788
Northern China	3,829
Southern China	3,223
Uncategorized	5,883
<b>Total</b>	<b>25,840</b>

Over the course of 2018, 2,736 new suppliers passed through our vetting process, and we are now proudly working with them. Our supplier assessment process and control system has been built to ensure that we are only working with suppliers and manufacturers that adhere to all relevant laws and regulations, including "Intellectual Property Law 《知识产权法》", "Labor Law 《中华人民共和国劳动法》", "Work Safety Law 《中华人民共和国安全生产法》", "Minor Protection Act 《未成年人保护法》", and "Regulations on the Prohibition of Child Labor 《禁止使用童工规定》". In addition, we confirm they have obtained all necessary credentials particular to their respective industry and have the financial stability to be partners long into the future.



# TRACEABILITY IN THE SUPPLY CHAIN

## Code of Business Ethics

Sun Art Retail Group is attentive to social conditions when creating our purchasing policies by requesting all suppliers to sign and commit to the company's Code of Business Ethics, which is derived from the national "Labor Law 《中华人民共和国劳动法》". In this way we share our commitments on social responsibility and respect for the environment.

We give priority to suppliers who share our values and commitment to sustainable development and corporate social responsibility. This priority is realized through the points system we use when grading potential partners, with extra points given for initiatives such as presence of energy efficient machinery, advanced recycling methods, and having systems or processes in place to reduce emissions.

## Assessment Mechanism

After entering into a contract with a supplier, we track performance of several key performance indicators with our Ongoing Assessment Mechanism to help ensure that our relationship is mutually beneficial. These indicators include supply chain performance indicators relating to timing of orders and reliability, as well as the results of on-site audits conducted by our internal manufacturing and safety specialists. These audits include confirmation of health inspection certificates and other required credentials depending on industry, as well as ensuring applicable labor standards are enforced according to the law. This includes the elimination of child or forced labor, and if an instance of this is uncovered, we will immediately cease cooperation with the offending supplier.

## Training

We also provide training for our suppliers in order to ensure they are aware of our quality and safety requirements, help them adjust to new market conditions as necessary, and to encourage them to implement environmentally responsible processes.

There are number of reasons we may stop working with a supplier, including performance issues, market changes, and failing quality or safety checks. In 2018 we released 68 suppliers. After releasing a supplier, we are willing to accept a re-application to go through our vetting process, but only after proof that all issues have been rectified, and new credentials have been issued by the relevant authorities. Their reason for initial release will be subject to much stricter scrutiny, both during the application process, and, if accepted, in the processes included in the Ongoing Assessment Mechanism.



# SMES SMALL AND MEDIUM SIZED ENTERPRISES

## Working with SMEs

We recognize the importance of helping to support SMEs in our local communities, and as such have programs and procedures in place to help in their development. We offer sales guidance for innovative SMEs who possess intellectual property rights and independent production capacity but who lack sales channels. For example, we hold quarterly business reviews during which we go over performance, profits, promotion resources, logistics and other operational matters so that we can provide guidance in any of these areas that are lacking.

We also help SMEs to reduce transportation costs and accelerate their sales by providing them access to our Distribution Centers (DC). In the case where their sales volume is not high enough yet, we adjust our logistical support according to the capacity of delivery and management ability of suppliers, gradually expanding the scope of cooperation by region.

Lastly, we provide help to SMEs in their development of new products, supporting them in procurement cost savings, and seeking out win-win opportunities in their operations. We help strengthen their food safety awareness by communicating the latest national laws and regulations and help to simplify procedures to accelerate the introduction of new products of manufacturers whose brand has been assessed as a “number one local brand”.

## Supplier Spotlight

We are pleased to be working with the Jiangsu Hongxuan Ecology Farm Company. This working chicken farm uses a Rondeel housing system, developed by the Dutch Vencomatic Group, for raising their chickens. They are the first company to use this system in Asia.

This enriched barn system pays close attention to the welfare of the chickens being raised and provides a controlled natural environment allowing them to live their lives as comfortably as possible. It includes a “night-time area”, where the chickens can go to sleep, eat, rest and lay eggs, and an outdoor area with a retractable roof that keeps the chickens protected during poor weather and which creates an open environment during good weather.



They are fed with a patented feed formula, based on soybean meal and corn, with added natural biological materials such as fish oil and seaweed, which both enhances the health of the chickens, and leads to the laying more nutritious eggs.

This company is working together with the Shanghai Poultry Research Institute, tracking the growth and health of the chickens, and ensuring that they are providing them with the best lives possible.





# LIVE BETTER

## Supporting the Environment

Sun Art Retail Group is committed to comply with or exceed all relevant environmental laws and regulations related to both the construction and operation of our stores in the regions where we operate, including the national “Environmental Protection Law 《中华人民共和国环境保护法》”, “Energy Saving Law 《中华人民共和国节约能源法》”, Shanghai Energy Saving Regulations 《上海市节约能源条例》”, and “Shanghai Carbon Emissions Management Trial Measures 《上海市碳排放管理试行办法》”.

Furthermore, we recognize that we emit greenhouse gasses in each of the three scopes as defined by the international reporting framework published in the Hong Kong Government’s “Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong”.

Scope 1 – Direct emissions: refrigerant leakage

Scope 2 – Indirect emissions: electricity and gas consumption

Scope 3 – Upstream and Downstream: emissions related to supply chain activities and customer transportation.

We are committed to reducing our greenhouse gas emission intensity of each scope to the greatest extent possible.

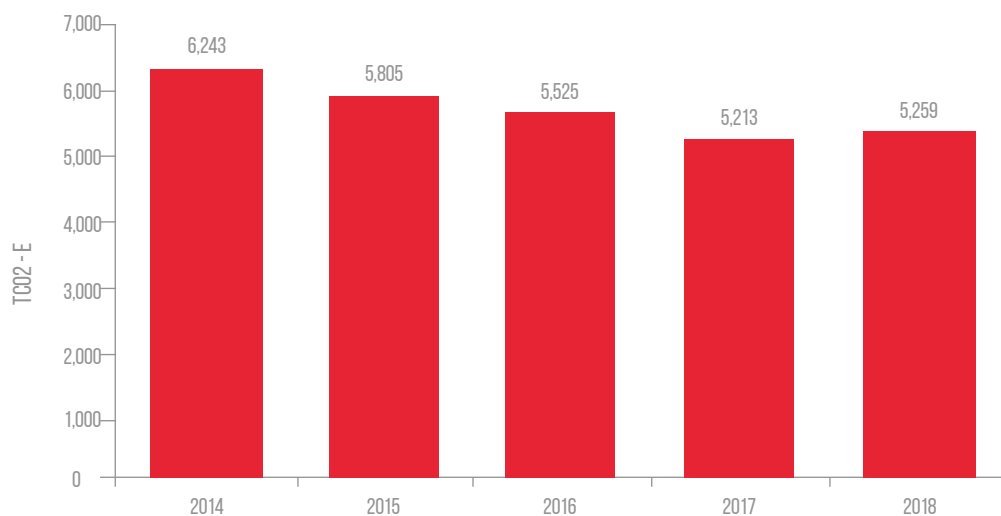
In addition, Sun Art Retail Group is committed to continually improving our energy performance and reducing our water consumption, which is determined from measurable results related to efficiency, the ratio or other quantitative relationships between an output of performance and an input of energy or water, and consumption, the amount of energy or water consumed.

Resource management is practiced in all areas of the company’s operation. The main objective is to use energy and water efficiently and to provide energy and water security for the organization, both immediate and long range, by:

- Utilizing energy and water efficiently throughout the company’s operations
- Incorporating energy and water efficiency into existing equipment and facilities, as well as in the selection and purchase of new equipment
- Complying with government regulations
- Putting in place an energy and water management program to accomplish the above objectives

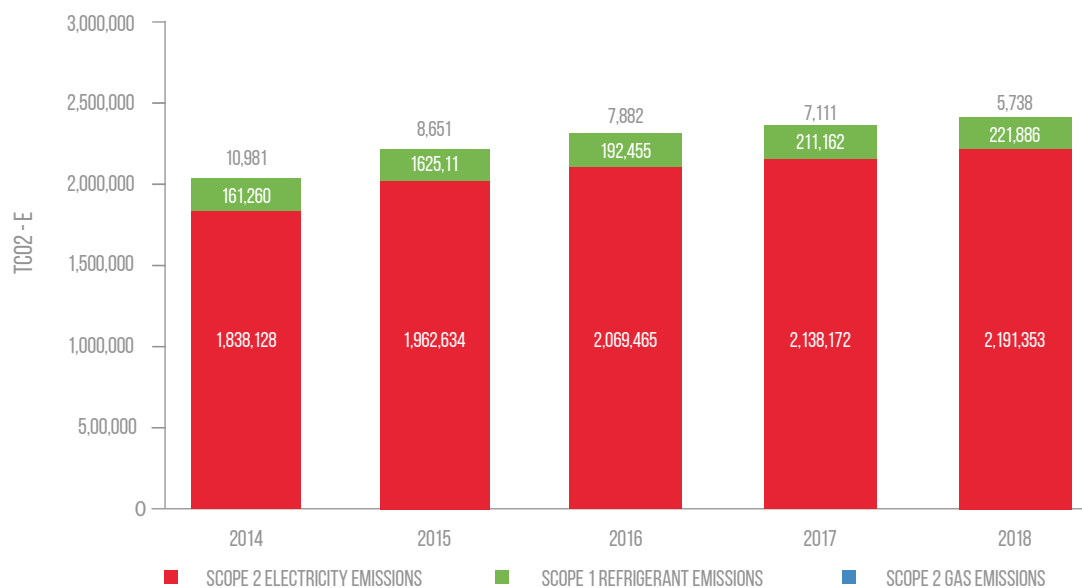
# EMISSIONS AND ENERGY CONSUMPTION INFORMATION

2018 AVERAGE ANNUAL tCO<sub>2</sub> - E PER STORE



\* The 2018 0.8% increase in average CO<sub>2</sub> emissions was primarily due to an increase in R404A purchasing, as a result of refrigeration system expansions and retrofits.

2018 CHAINWIDE tCO<sub>2</sub> - E



# EMISSIONS AND ENERGY CONSUMPTION INFORMATION

## Building automation and alert systems

Our mission to continually improve energy performance was initiated with the establishment of Auchan China's Sustainable Development program in 2007. Since then, we have implemented 81 sustainable development measures across the chain.

Central to this effort has been the installation and operation of building automation and alert systems to control our refrigeration, air-conditioning, and lighting systems in 98% of our stores, coupled with a resource management program to track and analyze our energy and water consumption. This program has resulted in the continuous improvement and optimization of all systems using electricity in our stores.

## Optimization of energy consumption

As an example, we are working to reduce night-time electricity consumption as low as possible through night-time traveller monitoring and alerts, time-controlled power-outlets in our offices, and the use of sub-meters to track exactly where energy is being consumed unnecessarily. It has also led to the optimization of energy consumption in our food production systems, ensuring ovens are started and stopped at optimum times, exhaust hoods are running appropriately, and shutdown procedures are implemented properly.



## Energy efficiency improvements

Additionally, we are continually improving the energy efficiency of our stores. All Auchan stores opened on or before 2012 have been undergoing rolling energy efficiency retrofits over the past 4 years. We completed LED retrofits for 100% of store lighting in 2018, and in 2019 we plan to renovate the anti-condensation systems of our freezer doors, which will improve the control of the anti-condensation heating wires and expect to save 45,000 kWh per store per year.

Another measure for 2019 will be to optimize the control of our food processing air-hood systems, which we expect will save around 30,000 kWh per store per year. These measures are in addition to many operational optimizations we are implementing where appropriate.

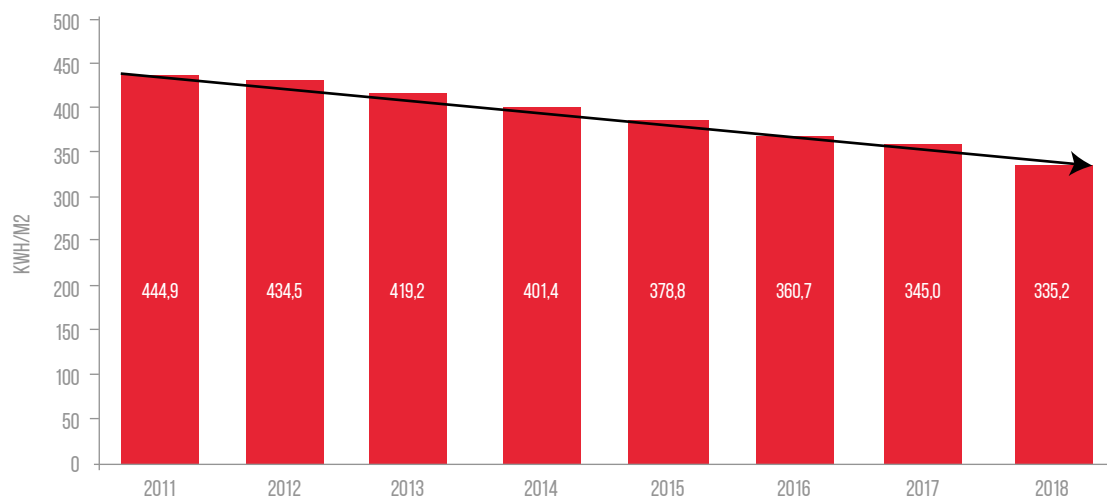


Another major effort underway is to move away from the use of refrigerants that are damaging to the ozone layer, and towards those with both a lower global warming potential (GWP) and zero ozone depletion potential (ODP). We are committed to phasing out R22 refrigerant in all our stores by 2030 and have not included R22 systems in new store design since 2011.

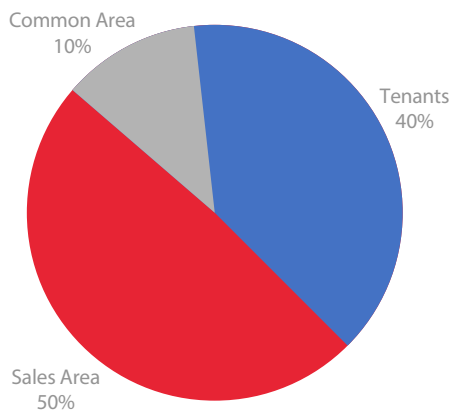
Currently 70% of our stores are using either R404A or R407F refrigerant. This year we began installing R407F systems, as they have a lower GWP than R404A, and zero ODP. Seven stores were retrofitted with R407F systems in 2018. We will be continuing to retrofit old R22 systems going forward, as well as testing out the viability of using R448A systems in 2019.

# EMISSIONS AND ENERGY CONSUMPTION INFORMATION

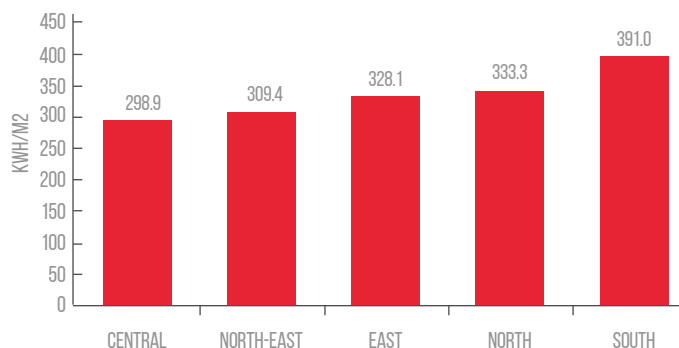
## SALES AREA ELECTRICITY CONSUMPTION



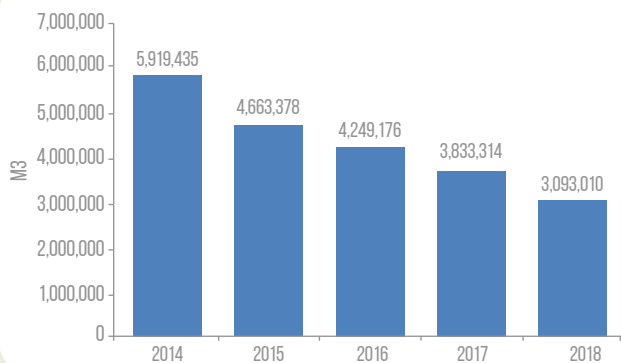
## HYPERMARKET ELECTRICITY CONSUMPTION BREAKDOWN



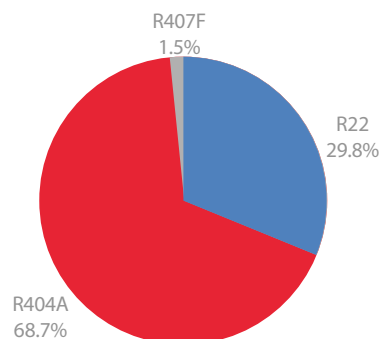
## SALES AREA ELECTRICITY CONSUMPTION BY REGION



## CHAIN-WIDE GAS CONSUMPTION

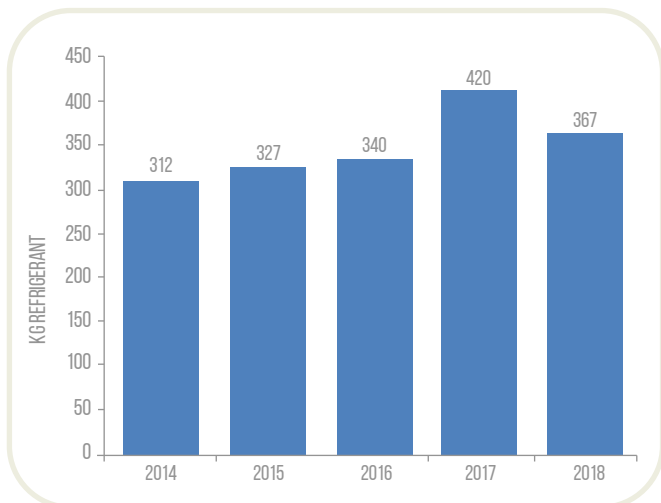


## BREAKDOWN OF REFRIGERANT TYPES

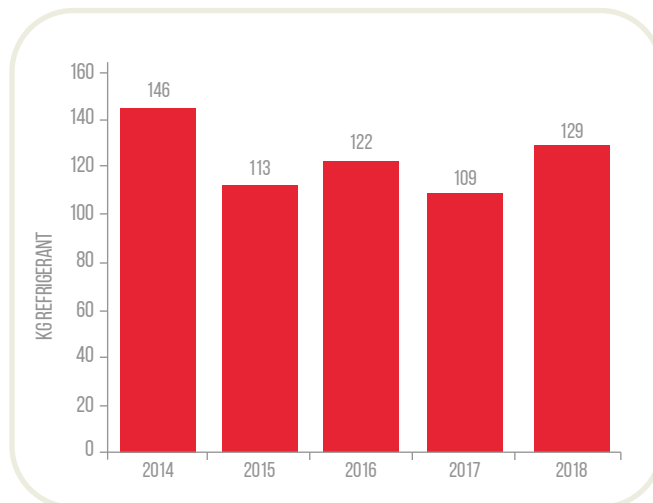


# EMISSIONS AND ENERGY CONSUMPTION INFORMATION

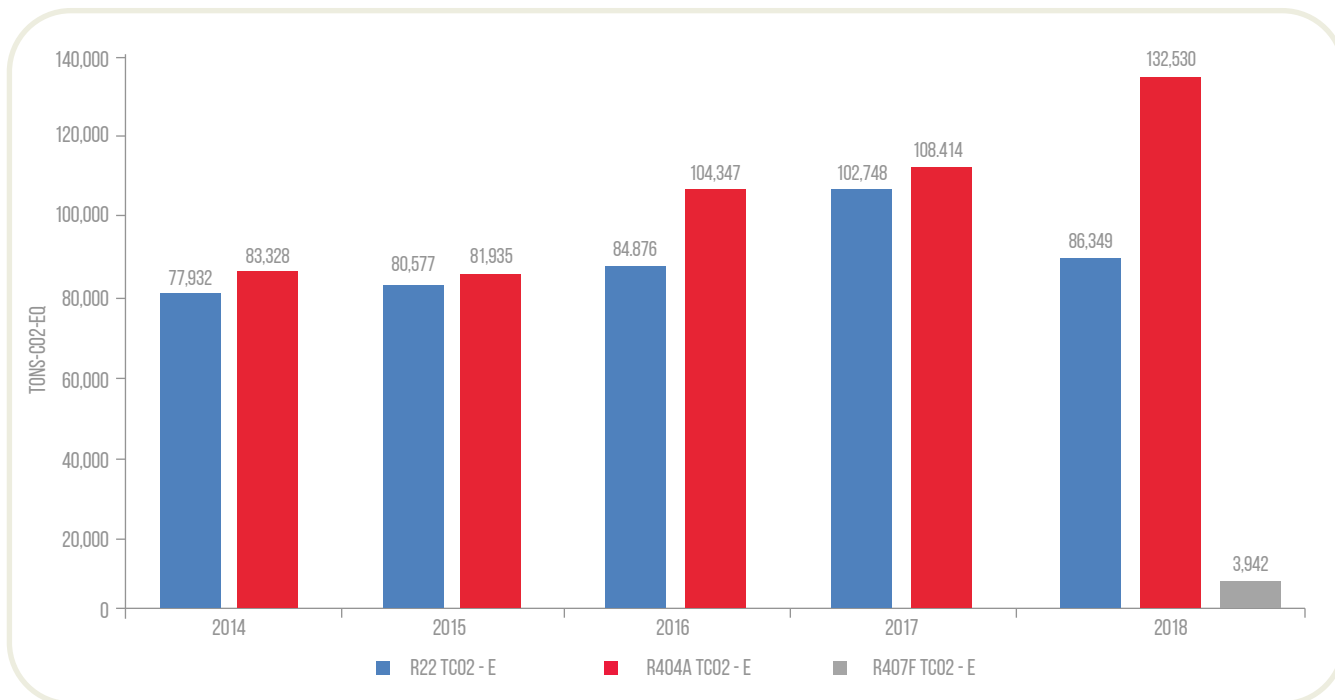
KG REF LEAKAGE PER STORE: R22



KG REF LEAKAGE PER STORE: R404A



TOTAL CO2-E EMISSIONS FROM REF LEAKAGE





# EMISSIONS AND ENERGY CONSUMPTION INFORMATION

## Green Energy - Green Buildings

In 2018, one of our focuses was on the continued implementation of our rooftop photovoltaic power generation project, which began in 2015. RT-Mart is installing two types of systems at their stores: flat-roof type and car-park type. Flat-roof type systems are installed on existing roofs with suitable galvanized steel board roofing material. Car-park type systems are being installed on structures that are erected above existing outdoor rooftop parking lots. Both types of systems will be connected to the city power grid, so that the stores first use the power from the solar panels. If the power generated is not enough, the store will automatically take power from the existing grid as a supplement. If there is a situation where the solar panels produce more than the store can use, this excess electricity will be fed back into the grid.

By the end of 2018, we had installed 11 rooftop photovoltaic systems, reaching a total installed capacity of 8.22 MW, nearly doubling our installed capacity from the previous year of 4.80 MW. These systems generated 5,668,000 kWh in 2018. We expect to add another 4 systems in 2019.



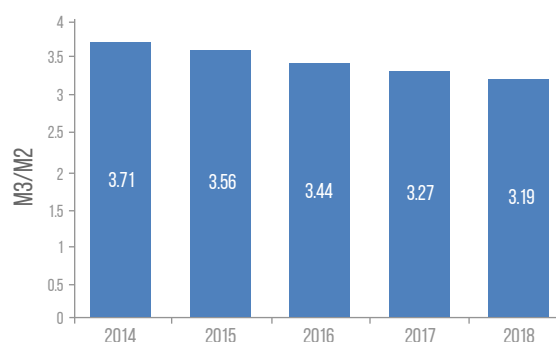
## Water Conservation Measures

Sun Art Retail Group's stores use large quantities of water every day for customer and staff bathrooms, cleaning, food processing and running our air-conditioning systems. In order to manage this resource as efficiently as possible, we have implemented numerous water reduction measures over the course of the past 12 years.

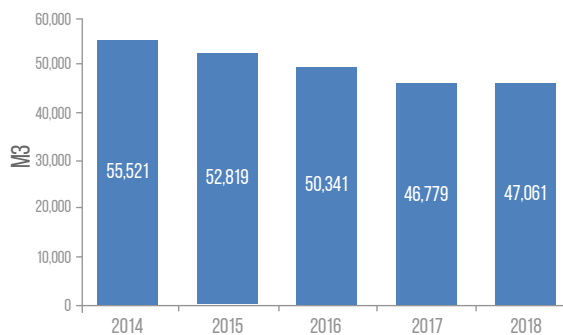
After carrying out a successful trial project in 2007, we implemented waterless urinals in the men's bathrooms as the standard for all stores.

During the design phase of every new store, we select only the highest efficiency plumbing fixtures to minimize water usage. This includes toilets in bathrooms that require less water to flush than traditional fixtures, photoelectric sensors for all faucets, and a high degree of control on cooling tower fans in order to reduce the amount of water used in our air-conditioning systems. We track the water consumption of all stores on a monthly basis and track down and rectify any issues that are uncovered.

SALES AREA WATER CONSUMPTION



AVERAGE ANNUAL WATER CONSUMPTION PER STORE



# SUPPORTING THE ENVIRONMENT

## Recycling and Waste Management

We take waste management very seriously and have been developing and refining our waste management control system over the past 7 years.

Our recycling operation process first involves the collection and sorting of waste from the five main areas of our stores: outdoors, shopping areas, office areas, operation rooms, and warehouses. Each area has dedicated bins for the various types of waste produced in those areas. All waste is collected, sorted, and weighed on a daily schedule. Each store has a contract with a local, certified recycling and garbage collection company that takes away and recycles our waste on a regular schedule.

We sort our waste into 9 categories, each is weighed daily, and the data recorded in our centralized Environmental Data Management System. This data is used to adjust our operating procedures in order to minimize waste to the greatest extent possible.

For example, our chef group, responsible for the cooking of fresh food in our shopping area, along with loss-prevention teams, analyze the waste data each day, and use this data to adjust their production plans as necessary.

WASTE CATEGORY	WEIGHT(KG)
Cardboard	114,111,703
Organic	48,323,481
Customer	20,552,552
Plastic	5,333,784
Paper	2,503,382
Styrofoam	882,929
Oil	671,202
Metal	199,589
Dangerous	69,351



# SUPPORTING THE ENVIRONMENT

## Packaging Reduction

We are committed to achieving sustainable reduction of raw material consumption by implementing continuous improvement processes concerning the reduction and recycling of packaging according to relevant government regulations. This commitment applies to both upstream, via the quantitative reduction of packaging own-brand products, and downstream, by implementing waste management programs for our hypermarkets and warehouses.

Supporting government policy, we push our own brand products to minimize the amount of packaging in their design. This resulted in a 70% decrease by weight, equivalent to resulting in a reduction of 112 tons of paper. The minimization of packaging materials has been incorporated into the design of all new product lines since.

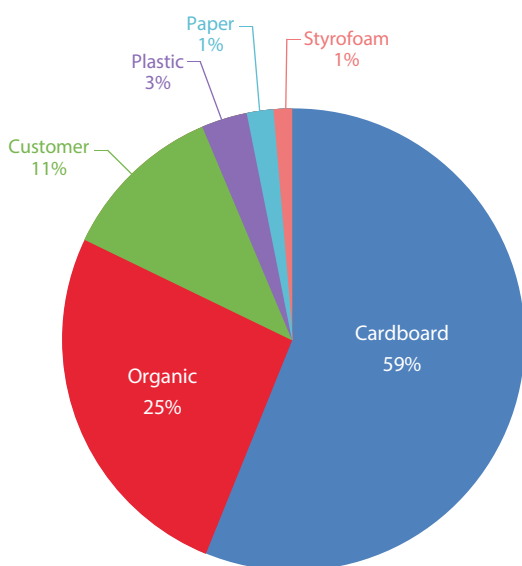
We also stopped providing plastic bags for free in all our stores in 2008, as required by law, and took this a step further by ensuring the bags that we sell are made of biodegradable materials.

## Combating Deforestation

We work to ensure that our partners in the supply chain do not contribute to deforestation, tropical or otherwise, as this is one of the key drivers of climate change. We recognize that cattle production in particular is a major culprit in this area, and as such, we seek to limit our supply chain exposure to beef suppliers that have a negative impact on the natural environment.



### WASTE WEIGHT BREAKDOWN



As part of this commitment, 70% of beef we sell is domestic, sourced from nationally recognized large suppliers and breeders. These suppliers have committed to not contribute to deforestation. The remaining 30% of our beef is mostly sourced from Australia, from suppliers who have also made this commitment.

Additionally, we recognize that other products we sell could potentially lead to deforestation, and we have taken steps to move towards selling more sustainable products. For example, we have been heavily promoting bamboo and grain-based paper products in order to reduce the amount of wood resources used. We saw a 421% increase in sales of these SKUs in 2017 when this program was initiated, and another 105% increase in sales last year. At the start of the program, these types of products made up only 2% of sales in this category, it has now reached 20%.

# SUPPORTING LOCAL COMMUNITIES

## Supporting Employees

Sun Art Retail Group's goal is for employees to be "responsible, enthusiastic and highly regarded", and promote the company values of "honesty, dedication, innovation, and teamwork". Our business is committed to promoting diversity, encouraging personal development, employing participative management methods, ensuring good quality working conditions and sharing the fruits of our success.

Sun Art Retail Group provides compensation and benefits to all full-time employees in accordance with Chinese laws, regulations and requirements, adhering to the national "Labor Contract Law 《中华人民共和国劳动合同法》", "Shanghai Labor Contract Regulations 《上海市劳动合同条例》" and the national "Labor Law 《中华人民共和国劳动法》". The compensation and benefits policies shall refer to other provisions of local laws and regulations as applicable. Sun Art Retail Group's compensation and benefits mechanism focuses on establishing a high-performance working environment, which considers life work balance, inspires colleagues to achieve our common goals, and to share in the company's success through profit sharing programs.

## Employment Protocols

Sun Art Retail Group accepts every individual's job application, regardless of whether the applicant has relatives in the company or not, on the conditions that the applicant has no direct superior-subordinate relations with his or her relatives, and the terms and conditions of employees will not be impacted by his or her relatives. Kinship employees cannot simultaneously work in a department that is related to the company's interest.



## Employee Welfare

At Sun Art Retail Group, we consider our employees to be our most precious resource; hence we attach great importance to our employees' welfare. According to the relevant welfare policies of the national laws and regulations, full time employees receive various insurances, meal allowances, vacation, employee discounts, profit sharing and other benefits. We also reimburse staff for annual medical examinations to help ensure our employees lead healthy lives.

We established a trade union in 2012 that serves as the foundation for the relationship between labor and management. Each store has a group of four to six people who are committee members, and at the head office we have a team of seven, including one union chairman, one union vice-chairman, one head of union finance, and four union members. We hold one national-level trade union meeting per year, and each store holds meetings at regular intervals. At these meetings all employees have the opportunity to communicate face-to-face with management personnel and union representatives. The store union groups are responsible for organizing various employee welfare and group building activities, such as basketball, badminton, yoga, dance and other healthy entertainment activities. In this way, they help to create a sense of inclusivity in the company.

**OUR EMPLOYEES ARE OUR  
MOST PRECIOUS RESOURCE**

## Chain-wide Surveys

We conduct chain-wide employee satisfaction surveys each year in order to better understand our employee's feelings about topics such as their working environment, quality of leadership, and satisfaction with salary and benefits. Additionally, each store office has a public mailbox and phone hotline that employees can use to anonymously provide suggestions, give their opinion on current matters, or carry out whistleblowing actions if necessary.



# SUPPORTING LOCAL COMMUNITIES

## Importance of Diversity

At Sun Art Retail Group, we do not discriminate against race, societal standing, nationality, age, religion, physical stamina, disability, gender, sexual orientation, or political affiliation.

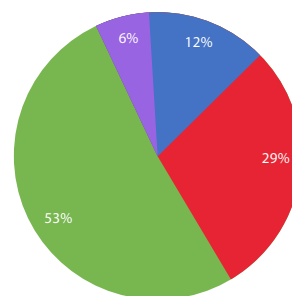
We never interfere with the right of all employees to exercise their beliefs and customs; to meet the rights of race, social class, nationality, religion, physical fitness, disability, gender, sexual orientation, union membership and political affiliation. We do not allow managers under any circumstances to be compulsive, threatening, humiliating or exploitative in any way towards employees, including posture, language and physical contact.

We provide equal pay for equal work for men and women. For women who meet the recruitment conditions for production or warehouse work, they will have equal employment rights. When recruiting employees, except for job types that are not suitable for women according to national regulations, we will never refuse to hire or arbitrarily raise the standard of employment for women.

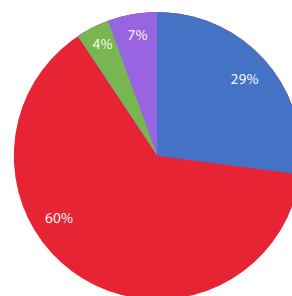
Female managers accounted for 49% of all managers in 2018, a 2% increase, and close to our goal of gender parity at the management level.

Offering jobs to disabled people is one of our core social responsibilities, and we currently employ 1,775 people with disabilities. Our stores and headquarters have established and maintained long term cooperation with local associations of disabled individuals throughout the country, through which we hire a steady stream of new employees.

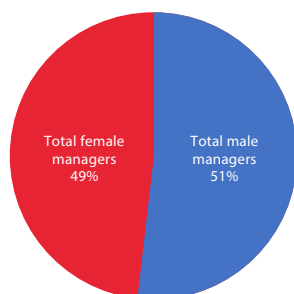
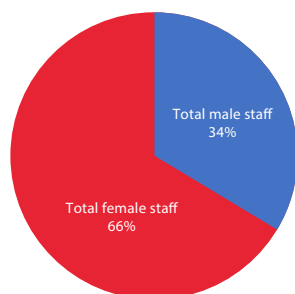
Finally, Sun Art Retail Group is committed to treating everyone with consideration and fairness within the company. We promote the integration of people with disabilities and promote gender diversity at all levels the company.



■ TOTAL STAFF UNDER 25 ■ TOTAL STAFF BETWEEN 25-35  
■ TOTAL STAFF BETWEEN 35-50 ■ TOTAL STAFF OVER 50



■ TOTAL MALE FULL-TIME ■ TOTAL FEMALE FULL-TIME  
■ TOTAL MALE PART-TIME ■ TOTAL FEMALE PART-TIME





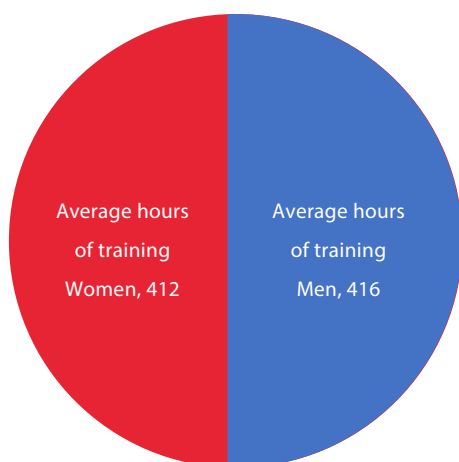
# SUPPORTING LOCAL COMMUNITIES

## Importance of Training & Development

Sun Art Retail Group places the individual at the heart of our priorities. We act for the fulfillment of our employees, via the development of professional skills and improvement of employability, with a focus on training and internal promotion. That is why we have invested 40 hours per year in training for each employee on average.

We believe learning is a lifelong endeavor and strive to provide our employees with the most effective training curriculums and learning methods as possible. We have a diversified training program, which includes classroom, online, mobile and on-the job training opportunities for all employees. We have regional training centers that regularly provide technical, professional, and ethics training programs for each department, and a specialized management training center where our managers can learn effective leadership and management techniques each year.

We ensure that the training our employees receive is directly applicable to their daily work and helps to contribute to their professional development. We have established career-tracks applicable to each position in our company, and always first look to hire internally to fill a job vacancy. Any employee who meets the conditions for promotion can expect to see continued professional growth into departmental and store level leadership positions. This policy is routinely cited by our employees in internal surveys as one of the most satisfying aspects of working in our company.



## Providing a safe working environment

Sun Art Retail Group is aware that the improvement of working conditions in our businesses is a pursuit that requires daily action. We are committed to ensuring that all employees work in a healthy, safe and risk-free environment, and comply with all relevant government laws and regulations, including the national "Work Safety Law 《中华人民共和国安全生产法》", and Occupational Health and Safety Management System Requirements 《职业健康安全管理体系—要求》".

We ensure that our buildings are built and operated in compliance with the national "Fire Protection Law 《中华人民共和国消防法》", "Civil Building Design Code 《民用建筑设计规范》", "Emergency Response Law 《中华人民共和国突发事件应对法》", "Anti-Terrorism Law 《中华人民共和国反恐怖主义法》", "Public Security Administration Law 《中华人民共和国治安管理处罚法》", and "Electricity Law 《中华人民共和国电力法》".

We have a unified risk prevention process in place with the aims of eliminating workplace accidents and ensuring that employees are prepared to handle emergencies in the workplace. We require employees to undergo both general and specialized safety training, with a curriculum that can change depending on their position in the company. Basic safety measures, such as evacuation and fire extinguisher use, are taught to all incoming employees. We regularly carry out evacuation drills and invite professional fire fighters on-site to provide training and instructions for our employees to learn how to use fire extinguishers effectively.

# SUPPORTING LOCAL COMMUNITIES

Examples of specialized topics include climbing safety and security, and in these cases are taught to our maintenance and security teams. All safety training curriculums are developed by our loss-prevention team in accordance with government requirements and laws listed above. After training is complete, we implement controls to ensure that all processes are carried out safely and according to procedure. These include general management principles, for example, not allowing untrained personnel to operate equipment, as well as the use of closed-circuit monitoring where necessary and random safety checks carried out by loss-prevention personnel. In 2018, we saw a 13% decrease in the number of days lost to accidents, down from 0.15 days per employee to 0.12 days per employee.

## B2B Program – E-Lu-Fa

One of our major efforts to help develop local businesses in the communities we have our stores has been the development of our B2B app: E-Lu-Fa. This app allows local businesses to easily source products from our stores at wholesale prices and is currently the only app in China to include a full range of fresh foods, in addition to 15 other categories. In total, we carry 20,000 SKUs that local businesses can choose from. We leverage our existing supply chain and stores as dispatch points. We are sourcing to several different types of businesses, including retail, wholesaler, catering, entertainment, child-care, commercial kitchens.

Each business type has a unique promotional profile, for which we provide discounts and membership bonuses, and we organize local events on behalf of our users to help them promote their businesses. In 2018, we had 480,000 users, and our goal is to reach 600,000 in 2019.



## Protection of Consumer Data

At Sun Art Retail Group, our consumer data protection policy was designed in accordance with the national “Cybersecurity Law 《中华人民共和国网络安全法》”. We never collect customer data without consent, and all collection is legal, proper and necessary. All submitted membership data is protected in our encrypted membership information system, and we strictly prohibit anyone from taking personal information from the system and giving or selling it to any third party or manufacturer for their use.

## Stance on Anti-Corruption

Sun Art Retail Group prohibits any fraudulent practice or act of corruption in any form whatsoever, including extortion and bribery, and strictly adhere to the national “Criminal Law 《中华人民共和国刑法》”, “Anti-Unfair Competition Law 《中华人民共和国反不正当竞争法》”, “Anti-Money Laundering Law 《中华人民共和国反洗钱法》”, “Interim provisions on the Prohibition of Commercial Bribery 《关于禁止商业贿赂行为的暂行规定》”, “Opinions on Several Issues Concerning the Application of Law in Handling Commercial Bribery Criminal Cases 《关于办理商业贿赂刑事案件适用法律若干问题的意见》”, “Interpretation of Several Issues Concerning the Specific Application of Law in the Trial of Criminal Cases Such as Money Laundering 《关于审理洗钱等刑事案件具体应用法律若干问题的解释》”, “Opinions on improving the anti-money laundering, anti-terrorist financing and anti-tax evasion supervision system 《关于完善反洗钱、反恐怖融资、反逃税监管体制机制的意见》”, and “2013 standardization of the overseas business operations of enterprises and the main points of prevention and control of overseas commercial bribery by the Ministry of Commerce 《2013年商务部规范企业境外经营行为，防治境外商业贿赂工作要点》”.

Employees are prohibited to offer, promise, give, solicit or secure, directly or indirectly, a bribe or other improper advantage. The acceptance or offering of gifts and other benefits by employees personally, whether direct or indirect, is prohibited.

# SUPPORTING THE WORLD

## Solidarity With Communities and The Country

Sun Art Retail Group is committed to act as a positive contributor to local communities around our stores, and to be an actor of integration, relaying national campaigns and responding to emergency situations.

As a responsible corporate citizen, Sun Art Retail Group aims to be close to its customers and integrated into the social and economic fabric of local communities where our stores operate.

We ask all employees to deal honestly and fairly towards all customers and business partners. Similarly, Sun Art Retail Group encourages each employee to exercise mutual respect and trust towards any person with whom he or she comes into a professional relationship with.

## Staff Action

*Local Planting Day* - On March 14th of each year, each store plants a tree on their own site.



## Company Action

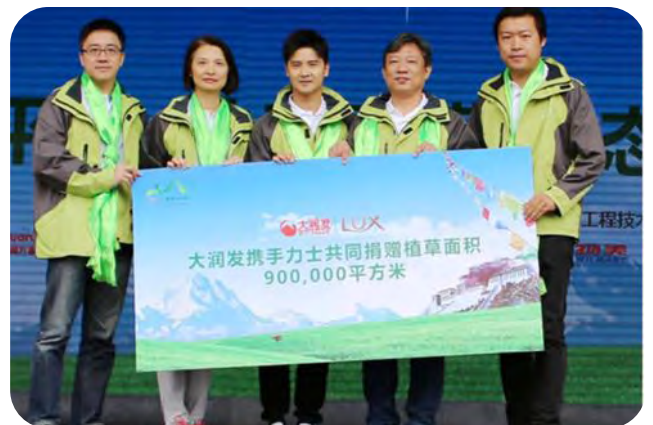
### *Working to Combat Poverty*

We have teamed up with CFPA (China Foundation for Poverty Alleviation) to help 12 local primary schools in Jiangxi Province to build modern equipped kitchens. The project is part of the National Twelfth Five Year Plan to help reduce poverty in certain counties throughout China. Before this project, these schools had no kitchen equipment with which to provide food to their students, but after our donation of RMB 555,293 collected by the company, more than 3,642 school children will be able to enjoy a balanced meal when they go to school.



### *Working with Customers and Suppliers*

We develop commercial campaigns with our suppliers to collect funds from customers through the sales of products to support the greening of over 900,000 m<sup>2</sup> in Gansu Province, helping to combat desertification.





# SUPPORTING THE WORLD

## Social Campaigns

We work with our suppliers to promote environmentally and socially responsible campaigns. In 2018, we promoted 19 programs throughout the course of the year, with donations totaling more than RMB 5.3M to various groups in need.

*Water Purification* - For example, over the past 5 years, we have worked with our suppliers to donate a portion of proceeds from their products towards the construction of water purification facilities in areas of need in China. Last year we raised RMB 350,000 for this fund and purchased 9 water purification systems.

*Supporting Orphans* - We engage our customers to contribute to the greater good by setting up “Compassionate Public Engagement” stands for the “Shanxing 100” campaign, where we collect care packages and donations which are then delivered to elementary schools in need on the Qinghai-Tibet plateau. This activity is hosted by the China Foundation for Poverty Alleviation and we have participated for the past 7 years. Last year 64 stores worked together to raise RMB 881,000 that went towards the purchase of packages of warm clothes, and artistic supplies for their school programs.



## National Campaign

*Consumer Day* - On March 15th, we participated in this national campaign in order to raise awareness of consumer rights. During this day we work with local governmental bodies throughout the country in order to provide information to consumers about both the work that is being done to provide safe and trustworthy products, as well as providing an avenue for them to share their complaints.

*Earth Hour* - We participate on March 28th of each year to communicate the importance of environmental protection to our customers and team members.

*No Car Day* - During the week of September 22nd, we participate in No Car Day activities promoting exercise and raising awareness of pollution from vehicles, as well as organizing a bicycle race.

